First home buying for Millennials
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INTRODUCTION

Millennials are the first generation to grow up surrounded by the Internet. This has shaped their digital instincts and expectations, challenging the established practices and structures of consumer industries. As they get their first job, their first salary, and buy their first home, they are turning into a profitable customer group.

First home buying for Millennials is a study on the Millennials and their banking needs. As they are identified as the biggest disruptive driver in banking today, it is vital for banks to know this group in order to prepare for the future competitive landscape.

“\nThe greatest disruptive driver in banking today: Millennials

- Chris Skinner, author of Digital Bank
The retail bank industry is often criticized for lacking innovation capabilities compared to other industries. At the same time, consumer behavior, technology and regulations have changed drastically in recent decades. The use of the traditional drive-to-branch as the primary sales funnel is increasingly seen as outdated for the current market situation. The question then becomes: What can the retail banks do in order to better position themselves in the current and future competitive environment?

The objective is to bring insights on the first home buying experience for the biggest disruptive driver in banking today: The Millennials. This is done by identifying the customer behaviors and experiences throughout a variety of journeys. By exploring these topics, we gain insights into the future customer demands, which leads us to where retail banks should adapt and focus their attention.
Methodology

To gain insights into these topics, we have conducted an exploratory study, with a research design predominantly emphasizing an inductive approach.

The methods used to obtain primary data include individual interviews, focus groups and undercover research. The secondary data is obtained by using multiple trustworthy sources, both online and offline, and both internal and external of EVRY.

Limitations

As the samples used to collect our primary data is small and not random, the results are not statistically valid. This means that the findings presented here are not to be generalized to a broader population, but serve only as concepts and preliminary insights which future research can build upon.
During the last few years, there has been much focus on the generation of Millennials in most consumer industries. It has been claimed that traditional brands do not understand them, are not relevant to them, and do not engage with them. It has also been claimed that the Millennials require more intuitive and innovative products, and different ways for companies to communicate with them.

But the Millennials are not only interesting because of the buzz. Today, the Millennials are between 15 and 35 years old. This means that they are growing up, studying, starting their careers and establishing families. As a group, they are becoming more and more attractive to the consumer industries, as some of them are getting their first job, their first salary, and their first home every day.
For retail banks, the Millennials are both good and bad news.

In Norway, Millennials stand for 98.7% of all first home buyers, and 45% of the mortgages issued in 2014. They therefore make up a big — and potentially very profitable — group for banks selling mortgages. As a consumer’s first mortgage usually marks the first time he/she has to make a reflected and active choice about banking, this is an opportunity for banks to engage with him/her and build a long and profitable relationship.

That is the good news.

The bad news is that they are not necessarily interested in a relationship with a traditional bank. US studies show that Millennials, compared to other generations, are less loyal bank customers, and more likely to turn to non-traditional banking services, such as peer-to-peer lending and mobile payments from non-banks. Millennials have therefore been said to be the biggest disruptive driver within retail banking today.

For banks, the generation of Millennials represents both great opportunities regarding mortgages, and the threat of disruption and disloyalty. This report will therefore focus on Millennials and their first home buying experience. We want to explore the Millennials ourselves, to find out how they are different and what they want their everyday banking to be like.
The Millennials is the first generation to grow up surrounded by the Internet. This has made them into digital natives with digital instincts, where technology, Internet and social media have become a natural and intuitive part of their lives.

They are likely to share their experience on social media, and desire constant stimulation and feedback from peers. In their banking relationships, they value a sense of control and convenience.

**Facts about Millennials**

- **BORN BETWEEN 1980 AND 2000**
  - Silent Gen: 345,000
  - Baby Boomers: 1,055,000
  - Gen X: 1,417,000
  - Millennials: 1,415,000
  - Gen Z: 867,000

- **27% of Norwegian population**
MARKET PENETRATION among Norwegian Millennials

Smartphone and laptop are the most commonly used digital devices among Norwegian Millennials. This have implications for how banks should interact with the Millennials.

People with university degree as % of age group

The Millennials between the age of 25-34 are highly educated compared to the older age groups. The low rates of university degrees among the younger Millennials (between 16 and 24 years old) are not surprising, due to their young age.
2.3 CHARACTERISTICS OF A MILLENNIAL

**DIGITAL EXPECTATIONS**

As the Millennials’ digital skills are high, so are their expectations. A study conducted by FICO found that negative digital experiences, both online and mobile, had a much bigger negative impact on Millennials than any other age groups.
Millennials are reluctant to seek advice from companies, and instinctively turn to their network and social media when seeking information. They quickly sort out the relevant information and ignore advertisements.

### Advice and Recommendations

- **90%** use recommendations from their social network in their decision making.
- **65%** use online recommendations from unknowns in their decision making.
- **2X** Twice as likely to turn to their parents for financial advice than their bank.
In Norwegian retail banking, mortgage is the single most profitable product targeting consumers.

In 2014, nearly every second mortgage issued went to a Millennial. For most Millennials, the first mortgage is the first financial product where they actively make a choice about which bank to choose. As Millennials are less loyal customers and often request mortgage offers from several banks, this intensifies the competition for the best bank customers. We therefore see mortgages as the most interesting product to investigate, because of its significance for both Millennials and banks.
Assuming that the Norwegian home buying behavior is constant, and that 9 out of 10 out of the total Norwegian population will at one point buy their own home.

99% of first home buyers are Millennials

60% of all eligible Millennials have BSU savings accounts

56% of all Millennials have mortgages*

45% of mortgages issued in 2014 went to Millennials

40% of Millennials receive financial help by parents when buying their first home
3.2 Method

Two focus groups were conducted, one in Sweden and one in Norway. The attendees were Millennials which had quite recently gone through the journey of buying their first homes.

The purpose was to understand how the Millennials think and feel during the journeys, and how they experienced the interaction with banks. The main focus was on how the attendees seek knowledge about the process and the following consequences.
When conducting the focus groups, the knowledge seeking behavior of the Millennials emerged as the most interesting field. A particular pattern became apparent: The Millennials go through three distinct phases when searching for information.

In the first phase, the Millennials trust their own abilities to do the research on their own. In the second phase, they start distrust this ability and turn to bank representatives. The third phase concerns how they experience the interaction with the bank.

These three phases will in the following be presented in their chronological order. Quotes from the focus group attendees supporting each phase are shown, along with a description. All quotes used represent a shared opinion of the group.
PHASE 1: Social network and online research
In the beginning of the journey, the Millennials try to seek all information on their own.

“Mostly, the information I would have asked from the bank, I asked my brother.

- Therese, 35

“In the beginning, I didn’t think that I would talk to the bank.

- Michelle, 26

“Mostly, the information I would have asked from the bank, I asked my brother.

- Sony, 25

You didn’t expect it to be so complicated.

- Sony, 25

I checked it out by googling it and reading articles.

- Michelle, 26

I would rather ask my friends and mom and dad before the bank.

- Therese, 35
Phase 1: Social network and online research

Insights
In the first phase, they believed information gathering would be quite simple and that their own research would give them sufficient knowledge. This is in line with the theory that Millennials wish to seek information on their own, from their network, social media and sources online, as described in the previous chapter. It is instinctive for Millennials to trust their own research over the advises of companies and brands, which clearly is the case also when researching the process of buying your first home.
3. FIRST HOME BUYING

**Phase 2: Uncertainty Arises**
Millennials distrust their own capabilities and knowledge when researching.

“**In the beginning, I wanted to make it simple.**

- Therese, 35

“**I remember I went to Skandiabanken, but I stopped during the process because I thought "This is huge. I need to speak to someone".**

- Michelle, 26

“**It makes you unsure. "Am I missing something?"**

- Aksel, 28

“**I felt someone had to look over my calculations. Like, I know this is probably right, but I don't know. I have to double check.**

- Michelle, 26
Phase 2: Uncertainty arises

Insights

In the second phase, the observed Millennials realized that their research did not fulfill their need for knowledge for the entire process of buying their first home. The observations reveal that this was not because it is a complex subject to research. Rather, it is because they perceive the cost of making mistakes as very high.

This indicates that as the stakes are perceived to increase, they distrust their own research and start looking for advice and support from banks.

This is interesting because it shows when the Millennials break with their digital instincts regarding seeking information, and how they manage their need for information in such circumstances.
3. FIRST HOME BUYING

PHASE 3: Engagement with banks
Meeting bank representatives is experienced as positive, but not informative enough.

“It makes you feel a bit more in control.”

- Una, 23

“...I really enjoyed sitting down there and asking "What are my options? What do you think?"”

- Aksel, 28

“It was like they just thought that you've been through this before.”

- Michelle, 26

“I felt a bit unsure throughout the whole process. They did not explain. I did not get the whole picture.”
Phase 3: Engagement with banks

Insights

The third phase concerns how they experience the contact with human bank representatives once that contact is established. Our observations show two different phenomenon.

1. The interaction with a bank officer makes the Millennials feel safe and comfortable in general.

2. The other finding is that even though our observed Millennials met with and had a dialogue with the bank, the officers did not manage to educate and comfort their customers enough to feel well-informed and in control. This perception was shared by the group.
The conclusions we can draw from this study are that Millennials appear to seek information from network, social media and online. However, when they face a complex challenge, they are likely to look for advice and support from banks to obtain more trusted and higher quality information.

Another aspect of our findings concerns the Millennials’ engagement with the bank, when and how this changes, and how the banks respond to the customers’ need for information. Once the Millennials realize that they need to seek advice and support from a bank, their interest and engagement with the banks sky-rockets from almost zero to very high for the first time in their lives. This situation should be seen as a significant opportunity for the banks connect to and establish a relationship with the Millennials.

However, of the banks in our study, their level of engagement did not satisfy the customers’ need. As the Millennials expect the banks to provide them with advice, support and education of the entire process, the banks fail to meet these expectations. Thus, the banks fail to exploit the opportunity laid before them. To build a customer relationship with a Millennial for the first time of their life, based on the trust that the bank will provide high quality support and advice whenever needed. If a bank fails to be relevant to its customer once, it is in danger of losing that customer forever.

**Key takeaway:** Banks need to recognize and alleviate the uncertainty experienced by Millennials when designing digital services.
Labs is researching how banks will be affected by technology and business drivers in the near future.

The research is conducted in collaboration with several partner banks, as well as external and internal domain experts.

These insights will be published in a series of whitepapers, further used to generate new ideas and develop new concepts within EVRY.
Labs

Labs is conducting research and experiments to explore the future of financial services

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Labs research papers

Small Business Banking
Small businesses are not often prioritised by banks, even though they account for a large part of the GDP in the Nordics. How can banks create solutions that bring value for both small businesses and banks?

First home buying for Millennials
Buying a home is the first major financial event for the Millennials. Banks need to recognize and alleviate the uncertainty experienced by Millennials when designing digital services.

Engaging the Millennials
Millennials are not engaged with banks. This paper brings insights to how banks can engage with this generation by exploring their mindset, lifestyle and needs.

Blockchain: Powering the Internet of Value
Blockchain is poised to become a massive disruptor for the financial world. This paper describes the technology, how it will alter the financial world, and a recommended strategy for financial institutions.

The New Wave of Artificial Intelligence
Artificial Intelligence is becoming increasingly prevalent in our everyday lives. This paper investigates the possible implications of the rise of Artificial Intelligence in the banking industry.

Big Data in banking
Norwegian banks are not using their data to optimize their decision making process and improve their business. This research explores the value of Big Data in banking.
Evry
We bring information to life